

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

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May 8, 2001

Vote *NO* on Bush Budget Conference

Dear Democratic Colleague:

I am writing to urge you to oppose the Bush budget resolution conference report that the House will consider this week. The procedures followed by the Republicans were bad enough; the substance is even worse. Indeed, a full review of the Republican budget conference report makes clear why the majority attempted to rush a vote in the dark of night with no time to review the document.

In their pursuit of an oversized tax cut, the Republicans have produced a budget that threatens America's priorities. The attached analysis details the following shortcomings in the Republican budget plan:

- ! ***The Conference Report Jeopardizes the Medicare and Social Security Surpluses by Dissipating Virtually the Entire Available Surplus*** — Any additional expenditures (as expected for defense) or additional tax cuts (as expected for fixing the Alternative Minimum Tax and for extending expiring tax code provisions), or any downward revisions of the surplus projections, will require tapping into the Medicare and/or Social Security surpluses.
- ! ***The Conference Report Requires Significant Cuts to Priority Programs But Refuses to Indicate Where All the Cuts Will Fall*** — Despite claims of a four percent increase in discretionary spending, accurate accounting makes clear that the budget actually cuts domestic appropriations below the current services level by \$4.4 billion for 2002. If Republicans decide to increase funding for certain functions above the amounts listed in the budget resolution, their budget will make even deeper cuts to other programs.
- ! ***The Conference Report Shortchanges Education*** — The conference report eliminates the \$294 billion over ten years that the Senate added to the House resolution to address our nation's educational priorities, including special education (IDEA). As written, the conference report goes even further, providing \$21.4 billion less over ten years for appropriated programs for education than provided in the President's budget and in the Republican budget resolution passed by the House.

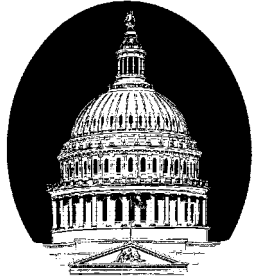
- ! ***The Conference Report Backtracks on Health*** — While providing for a Medicare prescription drug benefit, the conference report deletes reconciliation instructions in the House-passed resolution that would ensure that the Ways and Means Committee and the Energy and Commerce Committee report such legislation. As written, the conference report also provides \$1.2 billion less for 2002 and \$61.4 billion less over ten years than the President's budget and the House-passed resolution for appropriated health programs such as Ryan White AIDS treatment grants, maternal and child health block grant, Centers for Disease Control, and the Food and Drug Administration.
- ! ***The Conference Report Fails to Keep Promises to America's Veterans*** — For 2002, the conference report, as written, provides \$700 million less than the House-passed resolution for appropriated programs for veterans. This level means that the increase for medical care and other veterans' programs provided in the House-passed resolution has been dropped from the conference agreement. The conference agreement provides \$2.7 billion less for appropriated programs for veterans for 2002 than the Senate-passed resolution.
- ! ***The Conference Report Does Not Place a High Enough Priority on Debt Reduction*** — Even assuming that the conference report's assumptions and projections prove accurate and that future Presidents and Congresses do not increase spending or cut taxes further, the conference report, taken at face value, would pay down about \$300 billion less debt than the House Democratic alternative budget resolution.

These misguided budget priorities are the end product of a process that has excluded Democrats and misused Congressional process. The House and Senate budget resolutions were adopted prior to the release of the President's budget; the Senate Budget Committee failed to hold a markup; and Democrats were shut out of the conference. Only a flawed filing of the budget resolution by House Republicans Thursday night derailed their plan to bring the conference report to the floor after midnight.

A process that included Democrats and allowed for the deliberation that such a watershed budget deserves would have produced a very different product — one that sought to advance rather than threaten America's priorities. Please feel free to call me or the House Budget Committee Democratic staff if you have any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



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THE BUSH BUDGET: WHAT ELSE IS MISSING?

John M. Spratt, Jr.
Ranking Member

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

General Notes

- ! All years are fiscal years unless otherwise noted.
- ! Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.
- ! Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.
- ! Unless otherwise noted, all references to the CBO baseline refer to the March 2001 baseline.
- ! Numbers may not add due to rounding.

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Summary

The conference report threatens the Social Security and Medicare surpluses; ignores impending major increases in spending on defense; cuts all of the increase in education funding added by the Senate and House; makes no provision for emergency needs for droughts, hurricanes or fires; and cuts the purchasing power of domestic appropriations in 2002 and over the next ten years. All of this is solely in pursuit of a large and unbalanced tax cut.

And this watershed budget, which dissipates virtually all of our long- and hard-earned surpluses, has been brought forward by the Republicans in a misuse of the budget process. The resolution was filed only moments before it was to be adopted in the dead of night, without a Congressional Budget Office analysis of the President's budget or a Joint Tax Committee scoring of his tax cut. There was no Senate Budget Committee markup, no President's budget at the time of the adoption of House and Senate resolutions, and no role for the Democrats on the conference committee.

Overview

The Republican budget resolution conference report, because of President Bush's unbalanced tax cut, continues to threaten Social Security and Medicare, shortchange important functions of government from health to education to the environment, and dismantle the commitment to fiscal responsibility that enabled our economy's longest expansion ever.

The authors of the conference report were fully aware that there were just not enough resources to fulfill all of their commitments. And so they have produced a document that is incomplete and attempts to hide its problems.

But just like a waiter in a theater farce who continually moves a small tablecloth to try to cover a large table, the conference report's authors can conceal each shortcoming of their plan only by exposing another. Following is a partial list of these shortcomings:

- ***Conference Agreement's Funding Details Are Meaningless*** — Because the Republicans could not agree among themselves on their spending policy for annual appropriations, the conference report is a virtual empty shell. It avoids specifying its cuts in domestic discretionary programs by arbitrarily setting all program levels at the CBO baseline level needed to keep pace with inflation. Then it includes unspecified cuts of about \$6 billion per year, with no indication of where they will fall. The authors can so avoid scrutiny only by exposing that much of the conference report is meaningless.
- ***No More Emergency Reserve Fund*** — The authors of the conference report claim to have about \$6 billion more for non-defense discretionary spending than was available in the

House-passed resolution. But they can make that claim only by eliminating their \$5.6 billion reserve for emergencies — meaning that any natural disasters or other contingencies over the next ten years will either eat into the Social Security and Medicare surpluses, or displace other commitments in the conference report itself.

- ***Inadequate Contingency Reserve*** — Similarly, the authors of the conference report cite a contingency reserve that can absorb future needs. However, this reserve has the following fatal flaws:
 - ▶ The President's impending defense review will spend most, if not all, of the reserve.
 - ▶ The conference report eliminates the entire increase in education funding that the Senate added, and even the smaller amounts provided by the House and by the President — at least a part of which will surely be added back later.

In short, the conference report claims to prepare for the future with a “contingency reserve” that is already more than fully committed, before any of the inevitable future contingencies can arise.

- ***Economic Stimulus Threatened*** — The authors of the conference report appeal to moderates with a \$100 billion stimulus program, and hortatory language stating the intent to disburse the money in the next two years. But at the same time they appeal to others with binding language in the resolution making the money available in ***any*** year.
- ***\$1.25 Trillion Tax Cut Is Just The Beginning*** — The authors of the conference report claim to have struck a bargain with moderates to limit their ten-year tax cut to \$1.25 trillion. But the authors have already stated publicly and loudly that they will violate that bargain, and press for as much in additional tax cuts as they can pass through the Congress.

Threat to Medicare and Social Security Trust Funds

Although the reporting process of the conference committee may have been like a theater farce — complete with the mystery of the two missing pages — the result has serious implications.

The non-Social Security, non-Medicare surplus under the agreement is near zero for years — meaning that the federal government is almost spending the Medicare surplus to finance current operations, rather than adding that surplus to national saving to build a stronger economy and the wherewithal to meet future Medicare (and Social Security) obligations to today's wage-earners and payroll-taxpayers (see table).

BUDGET CONFERENCE AGREEMENT THREATENS MEDICARE AND SOCIAL SECURITY

(Billions of dollars; CBO January assumptions)

| Conference Agreement | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2002-11 |
|-------------------------------------|--|------|------|------|------|------|------|------|------|------|------|------|---------|
| Baseline Unified Surplus | | 281 | 313 | 359 | 397 | 433 | 505 | 573 | 635 | 710 | 796 | 889 | 5,610 |
| Social Security | | 156 | 171 | 188 | 201 | 221 | 238 | 257 | 276 | 294 | 312 | 331 | 2,488 |
| Medicare Part A | | 29 | 36 | 39 | 41 | 40 | 44 | 41 | 41 | 39 | 37 | 34 | 393 |
| Available Surplus | | 96 | 106 | 132 | 155 | 172 | 223 | 275 | 318 | 377 | 447 | 524 | 2,729 |
| Permanent Tax Cut | | 0 | 50 | 76 | 84 | 97 | 138 | 141 | 153 | 166 | 171 | 191 | 1,269 |
| Stimulus Tax Cut | | 85 | 15 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15 |
| Medicare Rx and Home Health | | 0 | 0 | 1 | 11 | 22 | 29 | 41 | 46 | 49 | 54 | 61 | 314 |
| Other Health | | 0 | 7 | 12 | 11 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 44 |
| Agriculture | | 6 | 7 | 8 | 8 | 8 | 8 | 8 | 7 | 6 | 6 | 6 | 70 |
| Veterans | | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 6 |
| All Other | | 2 | 7 | 4 | -3 | -0 | -3 | 1 | 1 | 1 | 1 | 1 | 10 |
| Resulting Net Interest | | 2 | 7 | 12 | 19 | 26 | 36 | 48 | 62 | 78 | 95 | 114 | 498 |
| "Contingency Reserve" | | 1 | 12 | 19 | 24 | 16 | 13 | 33 | 46 | 75 | 118 | 149 | 504 |
| Likely Further Action | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2002-11 |
| Average Historical Emergencies | | | 2 | 4 | 5 | 6 | 6 | 6 | 6 | 6 | 7 | 7 | 55 |
| Defense Increase | | 0 | 13 | 21 | 27 | 32 | 37 | 45 | 48 | 49 | 49 | 49 | 370 |
| AMT Fix | | 0 | 1 | 4 | 7 | 13 | 21 | 37 | 43 | 49 | 55 | 63 | 293 |
| Tax "Extenders" | | 0 | 1 | 2 | 3 | 3 | 4 | 4 | 5 | 5 | 6 | 7 | 41 |
| Business Tax Cuts | | 0 | 3 | 4 | 4 | 4 | 4 | 3 | 3 | 3 | 4 | 4 | 36 |
| Health Tax Cuts | | 0 | 0 | 2 | 4 | 6 | 6 | 7 | 7 | 7 | 7 | 7 | 53 |
| Retirement Tax Cuts | | 0 | 1 | 3 | 3 | 4 | 5 | 6 | 6 | 7 | 8 | 8 | 52 |
| Resulting Net Interest | | 0 | 1 | 2 | 5 | 8 | 13 | 19 | 26 | 34 | 43 | 53 | 203 |
| Resulting Surplus / Deficit | | 1 | -11 | -22 | -33 | -60 | -82 | -94 | -98 | -86 | -61 | -50 | -597 |
| Spending of Medicare Surplus | | 0 | -11 | -22 | -33 | -40 | -44 | -41 | -41 | -39 | -37 | -34 | -342 |
| Spending of Social Security Surplus | | 0 | 0 | 0 | 0 | -20 | -38 | -52 | -58 | -47 | -24 | -16 | -255 |

These surpluses show a budget skating on thin ice. They are so small that a return to deficits, and sizable spending of the trust fund surpluses, is a distinct possibility. The Congressional Budget Office has reported that its average projection error *for a budget year in progress* is about 0.5 percent of the GDP (which is roughly \$52 billion this year, rising to about \$85 billion in 2011); the non-Social Security, non-Medicare surpluses under the conference agreement fall below that minimal level of security until the last two years of the ten-year budget window. More than 83 percent of the projected non-Social Security, non-Medicare surplus under the conference agreement would occur in the last five years of the ten-year budget window, when uncertainty is enormous. A shortfall of economic growth of about 0.2 percent per year — which is only the amount by which CBO has increased its ten-year average growth projection in the past 12 months — would entirely wipe out this surplus.

The conference report thus makes even more clear that the Republicans' single overriding goal is a large tax cut, targeted to those who need it the least. That tax cut leaves virtually no resources for any other public priority — be it reforming Social Security or Medicare; paying down the debt; providing prescription drug coverage under Medicare; strengthening education; protecting the environment; or addressing emergencies, from earthquakes to energy shortages.

With a product so questionable, it is no wonder that the authors of the conference report perpetrated a misuse of the budget process — with the resolution filed only moments before it was to be adopted in the dead of night, without a Congressional Budget Office analysis of the President's budget or a Joint Tax Committee scoring of his tax cut, without a Senate Budget Committee markup, without the President's budget at the time of the adoption of House and Senate resolutions, and without any role for the Democrats on the conference committee. It is clear that the goal of this conference report is to rush into law an ill-targeted tax cut — with as little examination as possible — and to leave the consequences to be borne by middle-class families and their children.

Tax Cuts

The conference agreement calls for a tax cut of \$1.269 trillion for 2002 through 2011. In addition, the conference agreement allows for a putative economic stimulus consisting of \$100 billion in outlays that may occur any time from 2001 through 2011. The ten-year tax cut is somewhat larger than the \$1.25 trillion cut Republicans publicly accepted earlier this week. This is because it includes the revenue effects of a reduction of Securities and Exchange (SEC) fees in addition to the basic \$1.25 trillion package.

- ***True Cost of the Tax Cut*** — The total impact on the surplus of the ten-year tax cut, including added spending for interest on the national debt, comes to \$1.668 trillion.

- ***“Economic Stimulus”*** — The conference agreement allows for, but does not require, \$100 billion in new outlays that ostensibly will be used to stimulate economic growth. However, these funds may be spent at any time over the 11-year period 2001 through 2011. The conference agreement includes non-binding Sense of Congress language that suggests, but does not require, that the money be spent in 2001 and 2002. It is also quite possible that the \$100 billion could be used simply to enlarge the permanent tax cut by funding any refundable credits, which are scored as outlays.
- ***Reconciliation*** — The conference agreement calls for a reconciliation bill to be reported from the Ways and Means Committee no later than May 18 to embody the tax cut, and perhaps the \$100 billion in additional outlays as well. This means that the Ways and Means Committee will have a less than two weeks to decide on the largest tax cut in a generation.
- ***Explosion of Cost After 2011*** — The tax cut is extremely back-loaded, with almost two-thirds of the revenue loss in the second five years and a 2011 cut of \$191 billion. This long phase-in means that, even if the tax base grows more slowly after 2011, the cost of the tax cut will explode at the time that Social Security and Medicare are most vulnerable. For instance, if the tax base after 2011 grows 0.5 percentage point more slowly than CBO projects for the next ten years, the tax cut’s revenue loss in 2012 through 2021 will be \$2.457 trillion. Including the added spending on public indebtedness, the total impact on the surplus in the second ten years is over \$4 trillion.
- ***More Tax Cuts to Come*** — Several Republican Members of the Congress, including Members of the Republican leadership, have declared that they intend to enact tax cuts in addition to those called for in the conference agreement. There may be a strategy to enact less popular tax cuts using the procedural protections of reconciliation and later move more popular items without such protections. This, of course, would add to the total cost of tax cuts enacted this year, as well as to the explosion of costs after 2011.

Contingency Reserve

The Bush Administration has repeatedly justified its large tax cut by claiming that the budget leaves a considerable “contingency reserve” in place to deal with any future developments not provided for in the budget. Previous analyses have shown that the stated size of the Bush budget’s contingency fund was exaggerated, and that in any case claims on the contingency fund outstripped the resources contained in the fund. The contingency fund in the conference agreement is similarly limited, and the claims on the fund continue to outpace the resources available.

If additional claims exceed the size of the contingency reserve, the consequences are severe: the Medicare and/or Social Security surpluses will be raided, weakening our preparation for the retirement of the baby boom generation. Yet, given the thin margin for error provided in the Republican budget conference report, such an outcome seems quite likely.

| The Conference Agreement Contingency Fund | | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------------------|
| Dollars in Billions | | | | | | | | | | | |
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | Ten Year Total |
| Contingency Fund 1/ | 12 | 19 | 24 | 16 | 13 | 33 | 46 | 75 | 118 | 149 | 504 |
| Less: Emergencies 2/ | 2 | 4 | 5 | 6 | 6 | 6 | 6 | 6 | 7 | 7 | 55 |
| Interest on Emergencies | 0 | 0 | 0 | 1 | 1 | 2 | 2 | 2 | 3 | 3 | 15 |
| Non-Emergency Contingency Fund | 10 | 15 | 19 | 9 | 5 | 25 | 38 | 66 | 108 | 139 | 435 |
| Claims on the Contingency Fund: | | | | | | | | | | | |
| Defense 3/ | 13 | 21 | 27 | 32 | 37 | 45 | 48 | 49 | 49 | 49 | 370 |
| Tax Cuts 4/ | 7 | 14 | 21 | 30 | 39 | 57 | 64 | 72 | 80 | 90 | 474 |
| Interest on Defense and Tax Cuts | 1 | 2 | 4 | 7 | 12 | 17 | 24 | 32 | 40 | 50 | 188 |
| Spending of Medicare Surplus | -11 | -22 | -33 | -40 | -44 | -41 | -41 | -39 | -37 | -34 | -342 |
| Spending of Social Security Surplus | 0 | 0 | 0 | -20 | -38 | -52 | -58 | -47 | -24 | -16 | -255 |

Numbers may not add due to rounding.

1/ Equals the non-Social Security, non-Medicare surplus. HBC Democratic staff estimate.
2/ Outlays resulting from House Republican estimate of historical average of \$5.6 billion per year of emergencies beginning in 2002, adjusted for inflation thereafter.
3/ Defense increase of \$200 billion in budget authority over six years to April 2001 defense plan, with increases maintained from 2008 through 2011.
4/ For details on tax cuts, see table "Budget Conference Agreement Threatens Medicare and Social Security"

! ***The Contingency Reserve Skates on Very Thin Ice*** — As the table shows, the amount left available to deal with any contingencies is that portion of the non-Medicare, non-Social Security surplus that is not already assigned to pay for tax cuts or spending. Out of the overall projected unified surplus of \$5.6 trillion dollars over 10 years, the conference report leaves only \$504 billion over ten years in the contingency reserve. The last three years of the ten-year period account for two-thirds of this total. This means that in four of the next seven years, there is less than \$20 billion held back to deal with unexpected challenges not provided for in the budget.

! ***The Predicted Size of the Contingency Reserve May Prove to be Overstated*** — If the economy weakens and surplus projections prove overly optimistic, then there would be a small amount or nothing at all left to deal with contingencies. Given the uncertainty of even short-term CBO surplus projections, the budget's thin margin of error is a high-stakes gamble. A losing bet means tapping into the Medicare and the Social Security surpluses. Indeed, a shortfall of economic growth of about 0.2 percent per year — which is the amount by which CBO has increased its ten-year average growth projection in the past 12 months — would entirely wipe out the non-Medicare, non-Social Security surplus.

! ***Even If Surplus Projections Hold True, The Contingency Reserve Will Run Short*** — Even if projected surpluses are realized, the contingency reserve does not contain enough funds to address all of the purposes it will likely be called on to fulfill. In fact, the conference agreement gives the House Budget Committee Chairman arbitrary power to increase spending above the budget resolution levels. Expected claims on the contingency fund include:

- ▶ ***Defense Increases*** — The administration has already indicated that it will request a considerable increase in defense spending, on the order of \$200 billion over six years (which translates to about \$370 billion in outlays over ten years). As the table shows, such an increase would by itself more than exhaust the contingency reserve in seven of the next ten years.
- ▶ ***Additional Tax Cuts*** — Administration officials have also indicated that they will seek additional tax cuts above the \$1.35 trillion total provided for in this budget. Possible candidates for additional tax cuts include: pension reform; extension of expiring tax provisions; fixing the Alternative Minimum Tax; tax cuts for small businesses; and tax cuts for capital gains. Their passage would further exhaust the contingency reserve and require additional spending of the Medicare and/or Social Security surpluses.
- ▶ ***Emergencies*** — The budget conference report provides no funding to deal with emergencies such as natural disasters. (The House-passed resolution had included \$5.6 billion for 2002 and approximately \$65 billion over ten years to deal with non-defense emergencies.) Because a ten-year moratorium on earthquakes and other natural disasters is unlikely, any funding for this purpose will have to come out of the contingency reserve. Funding for defense emergencies would represent an additional drain on the contingency reserve.

- ▶ ***Higher Appropriations*** — House and Senate appropriators of both parties have suggested that the Republican budgets cut domestic programs too sharply, and that some of these cuts are unlikely to stand. If appropriators do restore some of these funding cuts, the contingency reserve will be used up even more quickly.

In short, the size of the Republican contingency fund is both overstated and oversubscribed. As the table shows, even using conservative assumptions it is likely that the Republican budget will require tapping into the Medicare surplus in all of the next ten years, and into the Social Security surplus in seven of the next ten years.

- ! ***Using the Contingency Reserve Diminishes Debt Reduction*** — The conference agreement includes the amount of the contingency reserve in its claimed totals for debt reduction. This double-counting means that every dollar of the contingency reserve that is spent also diminishes the amount of debt that is reduced by a dollar (plus the cost of interest). Even the conservative estimates included in the table indicate that the entire \$504 billion ten-year contingency reserve will be used, resulting in half a trillion dollars in debt that will not be paid off. This means that the Republican conference report will reduce the debt held by the public approximately \$800 billion less than the House Democratic budget alternative over the next ten years.

- ! ***Reserve Funds Give Explicit Permission to Spend From Contingency Fund*** — In the conference agreement, the Budget Committee Chairmen are given explicit permission to spend funds from the contingency reserve. In the House, the conference report sets up a Strategic Reserve Fund that would allow the Budget Committee Chairman to increase allocations and aggregates for 2002 for defense appropriations and for 2002-2011 for defense authorizing legislation, prescription drug legislation, and “any other appropriate legislation.” In the Senate, the conference report sets up a Reserve Fund for Defense, which allows the Budget Committee Chairman to increase the 2002 allocation for defense spending if legislation is reported increasing defense spending in response to the President’s National Defense Review. Both of these funds permit the contingency reserve to be dissipated right up to the level of the non-Social Security, non-Medicare surplus. Once this level is reached, downward revisions of the surplus estimates or any additional spending on emergencies, defense, tax cuts, or higher appropriations will tap into the Medicare and/or Social Security surpluses.

Prescription Drugs and Medicare Reform

The conference agreement increases overall net Medicare spending by \$313.7 billion relative to current law over ten years (2002-2011). Of this amount, \$300.0 billion is for a Medicare prescription drug benefit and an undefined Medicare reform package. The remaining \$13.7 billion is for Medicare home health. Although this amount is almost double the amount provided in the House-passed budget for prescription drugs and reform, a meaningful Medicare drug benefit coupled with reform is likely to require even more resources than the conference agreement provides.

The House Democratic alternative included \$330.0 billion over ten years (2002-2011) solely for a Medicare prescription drug benefit.

! ***Inadequate Resources for Prescription Drugs and Unspecified Medicare Reform*** — Last year's House Republican plan was solely for prescription drugs. It carried a ten-year price tag of \$159 billion, and it would cost more than \$200 billion if it were offered today because prescription drug prices increased in the last year. The amount provided in the conference agreement is clearly inadequate to provide a real Medicare prescription drug benefit and reform of the Medicare program unless existing benefits and provider payments are cut or payroll taxes are increased.

! ***Solvency of the Medicare Hospital Insurance (HI) Trust Fund*** — The conference agreement appears to allow the HI (Part A) Trust Fund to be tapped for the prescription drug and Medicare reform package. If so, the conference agreement would shorten the solvency of the trust fund. Furthermore, although it is known that Medicare requires resources outside the Medicare program to ensure its long-term solvency, the conference agreement ignores this fact and does not devote new resources to shoring up the trust fund. (Even worse, it dissipates virtually all of the available surplus, so that future efforts to extend solvency will be difficult or impossible.)

Under current law, the HI (Part A) Trust Fund is dedicated to pay solely for benefits related to hospital, skilled nursing home, hospice, and certain home health services. Monies diverted from the trust fund for any purpose must be paid back with interest. However, the conference agreement does not require revisions in current law. It is unclear if the conference agreement intends to eliminate the payback requirement.

The House Democratic alternative did not tap the HI Trust Fund to pay for the prescription drug benefit. New resources were included to fund the Medicare prescription drug benefit. In addition, the Democratic budget provided Medicare with additional funds to extend the solvency of the trust fund.

- ***No Requirement to Enact Medicare Drug Coverage*** — Unlike the House Democratic alternative and the House-passed budget, the conference agreement does not require the House Ways and Means and Senate Finance Committees to report a Medicare prescription drug bill to either body for action this year. Reconciliation instructions to these committees are the procedural means of directing action on a particular proposal. The conference agreement does not include instructions for Medicare drugs.

Medicaid and the Uninsured

- ***Medicaid*** — Unlike the House-passed budget and the House Democratic alternative, the conference agreement includes the President’s additional constraints on Medicaid’s upper payment limit (UPL) included in his 2002 budget. The additional UPL constraints cut Medicaid spending by \$11.7 billion relative to current law over ten years (2002-2011). These additional limits on UPL may result in hardships for certain states such as California, Illinois, Louisiana, and New York. Last year, Congress closed loopholes to prevent states from increasing their federal Medicaid payments without increasing health services.
- ***Increased Spending for Health Insurance for the Uninsured*** — The conference agreement increases spending for the uninsured by \$54.7 billion relative to current law over ten years (2002-2011).

The spending increase covers the following proposals: 1) \$8.0 billion for the enactment of “The Family Opportunity Act” (a bipartisan proposal allowing states to expand Medicaid coverage to children with disabilities provided that family income does not exceed 300 percent of poverty); and 2) \$18.7 billion for the refundable portion of the President’s proposed health insurance tax credit. An additional \$28.0 billion may also be spent over three years (2002-2004) for the Medicaid or State Children’s Health Insurance program or for tax deductions for the purchase of health insurance for, among others, moderate income individuals not receiving health insurance from their employers.

Appropriated Programs

Appropriated programs, also known as “discretionary” programs, are those controlled by the annual appropriations process. The conference agreement provides \$661.3 billion in budget authority for appropriated programs for 2002, which is \$700 million more than the House-passed budget but \$27.1 billion less than the Senate-passed budget. The conference agreement provides

\$4.4 billion less for 2002 for domestic programs than the amount needed to keep pace with inflation, and a total of \$49.9 billion less than the amount needed to keep pace with inflation over the ten year period (2002 - 2011).

- ***Overview: The Conference Agreement Is A Phony Budget*** — The conference agreement provides an aggregate level of \$661.3 billion for appropriated programs. However, instead of making recommendations for the level of appropriated funding for each function of the budget, the conference agreement lists the CBO baseline levels (which measure the funding needed to maintain purchasing power at the 2001 level), and then uses a plug of negative \$6.0 billion in a catchall function known as “Allowances” to make the numbers for 2002 add up. Plugs of similar sizes are used for all ten years (2002 - 2011) of the conference agreement.

If one takes the numbers at face value, then the Republicans have broken their promise to add funding for education and the National Institutes of Health (NIH). However, they may well argue that the function numbers in the conference agreement do not represent intended policy, and that increases for education and NIH can be accommodated by the Appropriations Committee. If this is the case, however, then any increases for education and NIH must come at the expense of other programs. Thus, the use of CBO baseline levels in the conference agreement masks the cuts that the conference agreement will require but does not identify. However, the President’s budget and the House-passed budget clearly show the Republicans’ priorities. Important programs such as environmental cleanup, law enforcement, and low-income assistance are the likely targets of the cuts needed to make the numbers add up (*Appendix B* contains an analysis of cuts in the President’s budget for reference).

In sum, to abide by the conference agreement, Congress will have to choose among three bad choices: abandoning the commitment to increase education and NIH funding; cutting other priorities like environmental protection to make its numbers add up; or spending the Social Security and Medicare trust funds to achieve its priorities. Whatever the true intentions, the conference agreement is a phony budget.

- ***The Conference Agreement Abandons the Reported 5 Percent Compromise*** — The Senate added \$27.8 billion for 2002 to the House-passed budget for appropriated programs, for a total of \$688.4 billion for all appropriated programs. This level of funding is 8.3 percent more than the 2001 appropriated total,¹ and it was widely reported last week that the conference agreement would settle on a 5-percent increase to satisfy moderates in the

¹The methodology for determining this increase is flawed because it ignores advance appropriations, emergency funding, and other budget anomalies.

Senate. The conference agreement provides \$661.3 billion for all appropriated programs, which is only a 4.1-percent increase (see footnote 1). However, there is more funding for non-defense programs than was contained in the House-passed budget because the conference agreement does not include a reserve for emergency spending (see below for further discussion).

- ***Claimed Increases Are Misleading*** — Republicans are likely to claim that the conference agreement increases funding for all appropriated programs by 4.1 percent. However, this claim is inaccurate because the comparison the Republicans make between 2001 and 2002 takes credit for advance appropriations Congress made last year and because of one-time-only emergency funding for natural disasters. After adjusting for these anomalies, an “apples to apples” comparison reveals that the total overall increase is actually 3.8 percent,² which is \$400 million (0.1 percent) less than the amount necessary to maintain purchasing power at the 2001 level. In addition, even using the flawed methodology that produces a 4.1 percent increase for 2002, appropriations only grow 2.6 percent per year thereafter.

Appropriated Funding for 2002 in the Conference Agreement

| | <u>Above/Below 2001</u> | <u>Above/Below CBO Baseline</u> |
|------------------------------|--------------------------------|--|
| Total Appropriations* | 3.8% | -0.1% |
| Defense | 4.4% | 1.0% |
| International | 5.5% | 2.8% |
| Domestic | 2.9% | -1.4% |

**The percentage changes for defense, international, domestic, and total appropriations include adjustments for anomalies such as advance appropriations and exclude one-time-only emergency funding in 2001.*

- ***The Conference Agreement Cuts Domestic Appropriations*** — As the table above indicates, domestic appropriations are actually cut by 1.4 percent compared to the level needed, according to CBO, to maintain purchasing power at the 2001 level (the CBO Baseline column of the table).³

²This analysis and those that follow in this section do not include obligation limitations for transportation programs. If obligation limits are included, the conference agreement represents a 3.9 percent increase above the 2001 level.

³Given that the conference agreement specifies defense funding, one can reasonably deduce the amount available for domestic appropriations by assuming that the President’s request for international affairs, which was matched by the House-passed and Senate-reported budgets, will be honored.

- ***Most Domestic Appropriations Will Be Cut More than 1.4 Percent*** — As the table above indicates, the conference agreement cuts domestic appropriations for 2002 by 1.4 percent in aggregate. If selected domestic programs, such as education, research funding for the NIH, and veterans programs are increased to the original House-passed levels, then the conference agreement cuts the remaining domestic programs 3.8 percent. To the degree that other programs are shielded from this cut, the remaining programs will be cut still further.

Education and Health Are Not As High A Priority As Defense

The use of negative plugs and the lack of detail in the conference agreement raises the question of how committed the conference agreement is to increasing funding for education and the NIH. The conference agreement does specify a policy level for defense, even if it is widely expected to be increased shortly after the tax cut is enacted (see *National Defense* and *Overview* for further discussion). If the conference agreement could set a specific level for defense, then why not for education and NIH? The obvious answer is that neither is truly as high a priority for Republicans as is defense.

- ***The Conference Agreement Does Not Budget for Emergencies*** — The Administration and House Republicans took great pride in establishing a reserve fund within the total for appropriated programs, to be used for emergency funding to respond to natural disasters such as floods, tornadoes, earthquakes, and hurricanes. The House-passed budget included \$5.6 billion for 2002 for this emergency reserve, and approximately \$65 billion over ten years. The Senate-passed budget did not include this reserve, and neither does the conference agreement. As a result, funding available for appropriated programs is a total of \$6.3 billion more than the House-passed budget for 2002 even though the aggregate total is only \$700 million more (\$5.6 billion for emergencies is now available for regular appropriations plus the \$700 million increase in overall appropriations). But now the Republican budget is pretending we will not have any emergency spending for ten years.

Of course, floods, tornadoes, earthquakes, hurricanes, and other natural disasters will occur, and the Congress will appropriate relief funding. This creates a dilemma. If the Congress requires offsets, as it has on occasion since the Republicans assumed control of Congress in 1995, then cuts will have to be made to appropriations, and they will likely fall largely on domestic programs. On the other hand, if Congress provides future emergency funds over and above the totals for appropriated programs, then the surpluses in the conference agreement are sure to be less, as will be the contingency reserve (see *Overview* and *Contingency Reserve* for further discussion).

- ***Firewalls Return*** — The conference agreement establishes separate limits for defense funding in the Senate for 2002, which effectively establishes a “firewall” between defense and non-defense funding (non-defense includes international affairs programs). Even if the Appropriations Committee provides less for defense than the budget resolution, the difference cannot be used for non-defense programs, and vice-versa. Although the provision is written to only apply to the Senate, it includes funding contained in conference reports. Since conference reports must be identical in both the House and Senate, the provision effectively establishes a firewall for the House as well.
- ***The Ten-Year Outlook for Domestic Appropriations is Grim*** — Over the ten-year period (2002 - 2011), the conference agreement provides \$49.9 billion less than is needed to maintain domestic appropriations at the 2001 level of purchasing power. Given that domestic appropriations consistently grew faster than the rate of inflation from 1962 - 2001, an era in which there were concerted efforts to rein in spending due to chronic deficits, this is an unrealistic level of funding.

National Defense

The conference agreement provides \$325.1 billion for defense appropriations for 2002, which includes funding for the Department of Defense, the nuclear weapons-related activities of the Department of Energy (DOE), and miscellaneous national security activities in various other agencies such as the Coast Guard and the Federal Bureau of Investigation. This level of funding is about \$200 million more than both the House-passed budget,⁴ \$9.7 billion less than the Senate-passed budget, and \$2.5 billion less than the House Democratic alternative.

- ***The Defense Budget is Still Missing in Action*** — The level of funding in the conference agreement for national defense is a “placeholder” until the Administration completes ongoing reviews of defense strategy and requirements. Later this year, possibly in June, the Administration is expected to request additional funds for defense for 2002 and beyond.

2001 Defense Supplemental

The conference agreement also provides \$6.5 billion for defense supplemental appropriations for 2001, which were not included in either the House- or Senate-passed resolutions or the President’s budget. This level is \$600 million less than the funding contained in the House Democratic alternative.

⁴CBO’s first estimate of the President’s budget was \$324.9 billion, the House-passed level. CBO has since revised its estimate to \$325.1 billion, the conference agreement level.

According to an April 27 article in *USA Today* and a May 1 article in *The Wall Street Journal*, the Administration is expected to request between \$175 billion and \$300 billion more for defense over the next six years (2002 - 2007). Using conservative estimates, if \$200 billion is provided for this period and then maintained over the last four years (2008 - 2011) of the ten-year budget window (2002 - 2011), then the surplus levels in the conference agreement would be reduced by more than \$370 billion (excluding interest costs). If such a defense increase is coupled with tax cuts likely to be enacted beyond the conference agreement's \$1.3 billion level, then the Republican budget will tap into the Medicare surplus in most of the next ten years and likely will tap into the Social Security surplus in several years as well (see *Overview* for full discussion).

- ***Resources Available for Future Defense Increases Questionable*** — The conference agreement establishes contingency funds in the House and Senate that are available for future defense increases; but there are many reasons to question how much will actually be available for defense. The Senate's reserve fund is strictly for defense and is for 2002 only, while the House "strategic reserve" is available for defense appropriations for 2002, defense authorizations from 2002 - 2011, prescription drugs from 2002 - 2011, and any "appropriate" spending purpose from 2002 - 2011 (which may or may not include defense appropriations). This inconsistent treatment in both the House and Senate could complicate what is truly available for defense.

In addition, as explained in *Contingency Fund*, the amounts available in the contingency fund represent the non-Medicare, non-Social Security surplus after the conference agreement's tax and spending policies are taken into account. The contingency fund is relatively small in size, particularly over the next seven years, and could easily disappear altogether if the economy weakens or goes into a recession, or if Congress enacts further tax cuts. Since there is no emergency reserve in the conference agreement, the contingency fund will surely be at least \$55 billion less over the next ten years than the conference agreement assumes (see *Appropriated Programs* and *Contingency Fund* for further discussion). Moreover, given the broad nature of the House language, defense will be competing for this limited funding against many other priorities, including expanded prescription drug coverage.

Finally, in both the House and Senate, how much of the contingency fund actually goes to defense is up to the sole discretion of the Budget Committee Chairman. The Budget Committee chairmen do not have to comply with the President's request for additional funding, but are simply instructed to take the President's request into account. The chairmen do not have to bring the matter to the attention of the full Budget Committees or to the floor of either the House or Senate.

- ***Conference Agreement Limits Shipbuilding Options*** — The Navy has expressed interest in using advance appropriations to procure new ships. Currently, the Navy follows a “full funding” practice whereby it requests all of the budget authority required to procure a ship in one year, even though it makes progress payments on the construction of the ship over four to ten years (depending on the type of ship). Advance appropriations would reduce the amount of budget authority required per ship in each year. Section 201 of the conference agreement precludes using advance appropriations except for specific items identified in the report accompanying the resolution, and Navy shipbuilding is not one of those items (see *Budget Process* for further discussion of advance appropriations).
- ***Ten-Year Outlook in the Conference Agreement*** — As discussed above, the Administration is expected to request substantially more funding for defense than is contained in the conference agreement. However, if one takes the conference agreement at face value, then over the ten year period (2002 -2011) it provides a total of \$29.9 billion less for defense than the House-passed budget. This level is a total of \$37.6 billion more over the 2002 - 2011 period than is needed to maintain purchasing power each year at the 2001 level, but it is \$78.1 billion less than the Democratic Budget alternative over this same period.
- ***Mandatory Programs*** — With one exception, the conference agreement maintains current law for national defense mandatory programs. The conference agreement accommodates the President’s proposal to pay mandatory entitlement benefits to uranium miners and others who are eligible for compensation through the Radiation Exposure Compensation Act (RECA).⁵ Currently, those eligible under RECA are compensated through appropriated funding. The House-passed budget did not include the President’s proposal, which is \$440 million more than the current law baseline over the 2002 - 2011 period.

The conference agreement drops the “concurrent receipt” amendment offered by Sen. Harry Reid (D-NV) and adopted by the Senate to permit military retirees who are also eligible for disability under Veterans Administration (VA) criteria to collect the full amounts of both their retirement and VA compensation. Under current law, military retirement pensions are offset by the full amount of the VA compensation.

⁵This proposal should not be confused with a similar but separate program Congress established last year to compensate Department of Energy workers who were exposed to radiation.

Education

For education, training, and social services, the conference agreement cuts virtually all of the additional funding added by Senate amendments approved on a bipartisan basis and, taken at face value, even cuts the funding levels for education approved by the House.

! ***Totals for Appropriated Programs Reflect No Increase for Education*** — For appropriated programs, the conference agreement does not provide budget totals that reflect policy. As with other areas of the budget, the conference agreement simply sets discretionary education spending levels at the inflation-adjusted baseline: \$64.4 billion for 2002 and \$705.4 billion over ten years. If taken at face value, these levels provide no increase over inflation for education appropriations. These levels are less than the House-passed resolution (which mirrored the President's budget) by \$0.9 billion for 2002 and by \$21.4 billion over ten years. The Conference Committee's Joint Explanatory Statement includes an assumption that Grants to States under the Individuals with Disabilities Education Act (IDEA) should be funded for 2002 at a level of at least \$7.59 billion, an increase of \$1.25 billion over the 2001 appropriated level. However, the levels in the resolution indicate *no* increases over inflation for *any* appropriated programs.

! ***Conference Agreement Drops Senate Education Amendments*** — The conference agreement's spending levels for mandatory programs clearly reject the Senate amendments that added substantial new resources for education. The conference agreement provides \$192.8 billion over ten years for mandatory spending for education, training, and social services, only \$8.9 billion more than spending under current law and \$6.5 billion more than in the House-passed budget. The conference agreement drops all funding for the Harkin education amendment and the Breaux-Jeffords special education amendment, which together added nearly \$294 billion over ten years in mandatory spending to the House-passed budget.

The \$6.5 billion in mandatory spending that the conference agreement adds to the House budget is set aside in a reserve fund to repeal a change to the interest rate structure for student loans that is scheduled to occur on July 1, 2003. The conference agreement keeps the \$2.4 billion included in the House-passed resolution in this function for three initiatives included in the President's budget: two child welfare programs and a small program to expand student loan forgiveness for math and science teachers.

Agriculture

Recognizing that the spending levels in President Bush's budget and the House-passed resolution were inadequate to address the crisis in rural America, the conference agreement increases mandatory spending by \$70 billion for agriculture and \$3.5 billion for conservation over the ten-year period (2002-2011). The conference agreement also adds \$5.5 billion for 2001 to meet immediate needs. For 2002, the conference agreement provides \$7 billion more for farm programs and \$350 million more for conservation programs than under current law. Since the levels for appropriated programs in the conference agreement are set at the current services baseline, it is unclear what policy decisions are assumed for the delivery system for these important farm programs.

Veterans

The conference agreement ignores the increases provided by the House and Senate for medical care and other discretionary veterans programs. For 2002, the conference agreement cuts \$700 million in appropriated funding from the House-passed resolution and \$2.7 billion from the Senate resolution. The mandatory changes in the conference agreement are the same as in the House-passed resolution. Over ten years, the conference agreement increases spending by \$6 billion over current law for mandatory programs, and includes the extension of some expiring provisions.

In total over the ten-year period (2002-2011), the conference agreement provides \$21.0 billion more than the President's budget and \$11.4 billion more than the House-passed resolution for veterans programs. The increase is intended to improve veterans education and other benefits, but falls \$1 billion short of the increase provided in the House Democratic alternative.

Low-Income Programs

The conference agreement increases mandatory low-income spending relative to current law by \$18.9 billion over ten years, approximately \$300 million more than the amount included in the House-passed budget. Although the conference agreement does not specify all of its policy assumptions, the amounts provided suggest that conferees accepted all House-passed spending increases as well as one Senate-passed increase. House passed increases include:

- ! \$7.7 billion over ten years for refundable tax credits associated with the Administration's proposal to double the child credit;
- ! \$10.8 billion over ten years for refundable tax credits associated with H.R. 3, which alters

income tax brackets and rates and makes limited corrections to interactions between existing refundable tax credits and the Alternative Minimum Tax (AMT); and

- ! \$60 million over ten years to accommodate the President's proposal encouraging states to use federal Temporary Assistance to Needy Families (TANF, or welfare) funds to offset revenue losses from state tax credits for charitable contributions (this proposal shifts the TANF spending pattern but does not provide additional funding).

The Senate-passed provision included in the conference agreement adds \$319 million in budget authority to extend TANF Supplemental Grants through 2002. The Administration and House-passed budgets allowed these grants to expire after 2001.

Conferees rejected a Senate provision raising Title XX Social Services Block Grant (SSBG) funding from \$1.7 billion to \$2.38 billion for 2002. The conference agreement also drops House-passed language providing reconciliation protection for House-passed increases for mandatory low-income programs and refundable tax credits. Reconciliation language in the conference agreement protects only the tax cut.

The House Democratic alternative, in contrast, provided \$24.6 billion over ten years to preserve TANF funds for low-income families, increase child care resources, improve access to food stamps, and extend Supplemental Security Income (SSI) to certain immigrants. The Democratic alternative also raised SSBG to \$2.38 billion in 2002 and provided \$60.8 billion over ten years to expand and simplify the EITC for working families.

Appropriated Health Programs

The conference agreement increases the overall funding level for appropriated health programs only by the amount CBO states is required to maintain pace with inflation. As a result, the conference agreement cuts the funding level for appropriated health programs, \$1.2 billion below the House-passed budget for 2002, and \$61.4 billion below that level over ten years (2002-2011).

Although the agreement contains additional funding that may be used for unspecified purposes, it is not dedicated to any programs, including health. There is no guarantee that it will go to health programs. According to the Republicans, there is one priority, increased funding for the National Institutes of Health (NIH), contained in the conference agreement. However, because the overall funding level for appropriated health programs is so low, the increase for NIH will have a negative effect on other health programs.

! ***National Institutes of Health (NIH)*** — According to documents provided by the Republicans, the conference agreement increases NIH funding by \$2.8 billion over the 2001 enacted level. This increase is the fourth installment in a five-year commitment to double the NIH budget relative to the 1998 level.

If the function numbers in the conference report are taken at face value, the NIH increase comes at the expense of other health research and programs such as Ryan White AIDS treatment grants, maternal and child health block grant, Centers for Disease Control, or the Food and Drug Administration. Under the conference agreement, overall funding for appropriated health programs is increased only by the amount CBO states is required to maintain pace with inflation. Therefore, increasing 2002 funding for NIH by \$2.8 billion results in a corresponding cut to other programs in the function.

The House Democratic alternative also increased NIH funding for 2002 by \$2.8 billion. However, it did not cut other vital health programs in order to boost the NIH funding level. In the Democratic budget, funding levels for other programs increased with inflation.

Other Programs

As explained in the *Overview* and *Appropriated Programs*, the conferees were unable to resolve spending differences in all of the non-defense budget functions. Therefore, they decided to put a plug number in each budget function equal to the amount needed to keep pace with inflation. Thus, the total funding levels for virtually all budget functions (except defense, net interest, and offsetting receipts) are rendered meaningless.

As a result, this analysis focuses upon the relatively few concrete policy choices the conference agreement makes and upon aggregate levels of appropriations. Due to the lack of specificity in the conference agreement, this analysis cannot discuss or examine as many specific programs and functions in the budget as has normally been done in past years.

The primary function of the budget is to set funding priorities and establish the broad parameters of the fiscal trade-offs among national priorities. This conference agreement fails to meet this basic and fundamental responsibility, and thus represents a serious failure in governance.

Budget Process

The conference agreement includes the following new budget enforcement and rulemaking provisions:

- ***Advance Appropriations Points of Order***— The conference agreement restricts advance appropriations through points of order enforceable in the House and the Senate. The conference agreement defines advance appropriations as “any discretionary new budget authority in a bill or joint resolution making general appropriations or continuing appropriations for fiscal year 2002 that first becomes available after 2002.” The point of order is subject to a three-fifths majority waiver in the Senate and a majority waiver in the House. The point of order, however, does not apply to certain projects and activities for 2003 to be listed in the Joint Statement of Managers (which are to exceed no more than \$23.159 billion in new budget authority) or to the Corporation for Public Broadcasting.
- ***Senate Enforcement of Discretionary Spending Limits*** — The conference agreement includes several provisions relating to enforcement of discretionary spending limits in the Senate. The conference agreement states that it is a priority in the Senate to establish new discretionary caps for fiscal years 2002 through 2006. The agreement also provides that, until discretionary caps for fiscal year 2002 are increased, the current caps remain enforceable in the Senate and require a supermajority waiver. However, in the event that new discretionary caps are enacted for 2002, the Senate Budget Committee Chairman has authority to increase allocations and adjust other budgetary aggregates and levels accordingly.

The conference agreement increases the 2002 cap for overall discretionary budget authority to \$661.3 billion, while the caps for highways, mass transit, and conservation remain at the levels in current law. The conference agreement also includes a firewall in the Senate for defense and non-defense discretionary spending for 2002. These limits — \$325.07 billion in budget authority for discretionary defense programs and \$336.23 billion for non-defense discretionary programs — are enforceable in the Senate through supermajority points of order.

- ***Allocations for Social Security Administrative Expenses*** — The conference agreement requires the House of Representatives to include in its allocation to the Appropriations Committee the discretionary expenses of the Social Security Administration. While Social Security remains off-budget, inclusion of the administrative expenses in the allocation shows that these expenses continue to be handled through the appropriations process.

Appendix A: Policies Not Included in the Budget

The administration has taken pride that it has withheld judgment on defense spending pending completion of a comprehensive review. But the administration has taken a completely different tack on the budget as a whole, of which the unspecified defense budget will be about one-fifth; it has taken a hasty guess as to the appropriate size for a tax cut, and attempted to write that number quickly into stone. Meanwhile, press reports indicate that the defense review could ask for an additional half-trillion dollars over ten years — more than the entire non-Social Security, non-Medicare surplus in the conference agreement. Congressional appropriators of both parties believe that the non-defense discretionary funds in the conference agreement, especially in future years, are wholly inadequate. Furthermore, Republicans in the Congress and in the administration are virtually advertising their intent to violate the supposed agreement on the size of the tax cut, and to dissipate even more of the surplus:

“There are different ways to skin this cat,” said Sen Phil Gramm, Texas Republican, who noted that there will probably be additional tax cuts voted on later in the year for small businesses and individual retirement accounts after the Congress finishes its work on Mr. Bush’s pending tax-cut package.

“I’m not convinced that we can’t get to \$1.6 trillion before it’s over. I’m not giving up,” said Mr. Gramm, a member of the House-senate conference attempting to iron out tax-cut and spending differences in the budget resolution that could be finalized by week’s end.

“I’m going to make it clear when we vote on this budget that I’m not bound by the tax numbers. If we put some tax-cut provisions in a minimum wage bill and it exceeds what’s in the budget, I’m going to vote to waive the rule,” Mr. Gramm told *The Washington Times*.

“We might have to take up some parts of the package, like repeal of marriage penalty or the death tax, at a later time as free-standing bills,” said a senior adviser to the president. “They are very popular tax cuts and it is hard [to] see them losing in this Congress.”

“Compromise Could Yield Bush’s \$1.6 Trillion Tax Cut”
Washington Times, May 2, 2001

Several lawmakers said they will seek to pass more tax cuts later in the year, perhaps attached to legislation boosting the minimum wage, if they could overcome the 60-vote hurdle.

“This is a step in the right direction,” said Sen. Kay Bailey Hutchison (R-Tex.), “but I hope we can come up with more tax cuts in a later package.”

“Tax Cut Compromise Reached”
Washington Post, May 2, 2001

At the reduced \$1.35 trillion level, trade-offs within Mr. Bush’s agenda are inevitable. According to people familiar with the negotiations, senators are mulling how much can be squeezed into the smaller package and whether to leave out for now some popular items, such as easing the so-called marriage penalty in the tax code or repealing the federal estate tax. One question is whether those could be moved later this year.

“Accord Is Set on \$1.35 Trillion Tax Cut”
Wall Street Journal, May 2, 2001

It is unclear how Congress will balance the pressures for additional spending with its commitment to avoiding a return to budget deficits and the stated desire of many Republicans to seek additional tax cuts this year beyond those called for in the budget.

Some Republicans are already considering pairing an increase in the minimum wage this year with a reduction in the capital gains tax. There is also considerable bipartisan support for a measure that the House plans to take up on Wednesday that would expand the popular 401(k) and individual retirement account programs.

“GOP Lawmakers and White House Agree on Tax Cut”
New York Times, May 2, 2001

[Senate Majority Leader Trent] Lott said that a 10-year tax cut of \$1.25 trillion would not be enough to fund all of Bush’s top four tax cut priorities — reducing marginal tax rates, phasing out the estate tax, providing marriage penalty relief, and doubling the per-child tax credit to \$1,000.

Lott noted, however, that he might opt to move one or more tax bills this year separately from the tax-cutting reconciliation bill that will include most of the tax provisions. “Remember this — [tax] bills can still be brought up without the

protection of the procedure that guarantees it can't be filibustered," Lott said. "We could bring up some part of the tax package under regular order and I believe some parts of it would get the necessary 60 votes to go forward."

"Bush, Top GOP Congressional Leaders Announce Accord
on \$1.35 Trillion Tax Cut"
BNA, May 2, 2001

[Senate Finance Committee Chairman Charles E.] Grassley said he continued to expect that other tax measures could be brought up later in the year as part of legislation dealing with other issues, including a minimum wage hike.

"Finance Members Discuss What Cuts Can Fit in \$1.35
Trillion Reconciliation Bill"
BNA, May 2, 2001

Boxed in by moderates in a Senate that has equal numbers of Democrats and Republicans, Bush had to settle for a budget calling for an 11-year, \$1.35 trillion tax cut.

That is less than the \$1.6 trillion, 10-year tax reduction he has long promoted as elixir for the economy. But GOP leaders are not shy about saying they will try to expand the tax reduction in bills that will move through Congress later this year.

"We're going to get as big a tax cut as we have the votes to do," said DeLay.

The budget is important because it sets a tax figure that is protected from filibuster, or delays aimed at killing a bill. Since filibusters can only be ended with 60 votes, that protection is crucial because Democrats would otherwise be likely to have enough votes to stop a big tax-cutting package.

This means that after Republicans finish their tax-cutting bill, which they hope to send Bush by Memorial Day, they will be free to try writing other tax measures. Likely candidates for subsequent legislation are reductions in the capitals gains tax rate and the alternative minimum tax, plus write-offs for health care costs and charitable contributions.

“We're passing tax cuts as fast as we can pass them,” DeLay said. “Whatever we can get through the Senate, we'll take. And then we'll start up again next year.”

“Bush Budget May Be Just Starting Point for Tax Cuts,
Spending”

Associated Press, May 5, 2001

Appendix B: “Compassionate” Cuts of the Bush Budget

The following House Budget Committee Democratic staff analysis pinpoints and explains some of the most egregious program cuts proposed in President Bush’s new budget. The analysis is organized to show first those cuts that threaten the low-income safety net; then health; then the environment; and finally safety. In the full Summary and Analysis of the budget, available on the Budget Committee Democratic website, we show in further detail how these and other provisions of the President’s budget, made necessary by his excessive tax cut, would harm typical American families.

Cutting the Safety Net for Low-Income American Families

- ***Unemployment Administration and Benefit Coverage*** — The Administration’s budget assumes increases in both the general unemployment rate and the unemployment rate of workers eligible for unemployment insurance (UI) from 2001 to 2002. Despite these projections, the budget cuts funding for state administration of unemployment benefits for 2002 by \$64 million compared with 2001 inflation-adjusted levels. The budget does not include proposals or funding to address a recent GAO finding that “...because the UI program appears to provide only limited protection for low-wage workers, the role of UI as a safety net for all workers warrants attention, particularly in light of the sweeping changes to the national welfare policy.”
- ***Workforce Training and Employment Programs*** — The budget provides \$5.1 billion for appropriated programs for training and employment services in the Department of Labor. This amount reflects a \$541 million (9.5 percent) cut below a freeze at the 2001 level for these programs. Funding is cut below a freeze at the 2001 level for dislocated workers programs, incumbent workers programs, adult training, youth activities, and career centers.
- ***Social Services Block Grant (Title XX)*** — The budget provides \$1.7 billion for the Social Services Block Grant (SSBG) for 2002, a cut of \$25 million below a freeze at the 2001 level. The National Governors’ Association has requested funding of \$2.38 billion for 2002, as originally allowed by the 1996 welfare reform legislation. The Strengthening Working Families Act recently introduced by a bipartisan group of Senators would set SSBG funding for 2002 at this \$2.38 billion level. SSBG provides states with flexible funds that can be used to meet their most pressing social services needs. These funds are used for services including child day care, services for the disabled, services for the elderly, employment, housing, and transportation.

- ***Section 8 Housing Assistance Vouchers*** — The budget for 2002 provides \$197 million to support 33,700 new Section 8 vouchers, less than half the number provided for 2001. The budget provides \$203 million for tenant protection assistance, \$62 million below the amount provided for 2001. This 2002 amount does not include tenant protection vouchers for disabled persons displaced from public housing designated for the elderly. Congress provided \$40 million to support 8,000 of those vouchers for 2001. Instead, the Administration will encourage local housing providers to assist such families from within their current programs.
- ***Public Housing Capital Fund*** — The budget reduces funding for critical building repairs in public housing by \$700 million (23 percent) below a freeze. The administration justifies this cut by saying that local housing authorities can tap into currently unspent funds to address capital repair needs. The unspent funds referenced by the Administration, which are actually funds committed to ongoing or planned repair work, fall far short of what is needed to make needed repairs. HUD found \$22.5 billion in unmet capital repair needs in public housing in 1998, and determined that an additional \$2 billion in repair needs accrue each year.

Maximizing the effectiveness of the Capital Fund is important. However, the budget cuts funding for all local providers, regardless of their performance, and does not restore cuts once improvements are made. These cuts, in combination with the elimination of the Drug Elimination program (see below), undermine bipartisan Congressional efforts to ensure the vitality of public housing communities and the safety of the 1.3 million families who live there, over 40 percent of whom are seniors or disabled.

- ***Public Housing Drug Elimination Program*** — The Administration does away with the Public Housing Drug Elimination Grant program, which funds anti-crime and anti-drug, law enforcement, and security activities in public housing communities. Congress provided \$309 million for this program for 2001. The Administration justifies this cut by saying that local housing authorities can make up for this loss by tapping into the Public Housing Capital and Operating Funds or other federal anti-drug programs, or by evicting tenants. This is not a realistic option because the budget simultaneously reduces the public housing Capital Fund by 23 percent and overcommits a small increase in Operating Funds.
- ! ***Revitalization of Severely Distressed Public Housing (HOPE VI)*** — Although the budget cites HOPE VI as a tool for reducing unmet repair needs in public housing, it freezes funding at the 2001 level of \$574 million. This program awards grants to local housing authorities to address the problems of poor-quality public housing developments.
- ***Rural Housing and Economic Development*** — This program is unique in encouraging new and innovative approaches to serve the housing and economic development needs of

rural populations through grants to local non-profits and community development organizations. The budget eliminates this program, which Congress funded at \$25 million for 2001, citing duplication with the Community Development Block Grant and other rural housing and development assistance programs. However, the budget reduces funding for several of these programs as well.

- ! ***HOME Investment Partnership Program (HOME)*** — The budget freezes the HOME program at the 2001 appropriated level of \$1.8 billion, reducing purchasing power for 2002 by \$40 million. State and local governments use this flexible program to create a range of low-income housing opportunities, including rent supplements, construction and rehabilitation of multifamily rental housing, improvements to substandard housing for current owners, and assistance to new home buyers. The budget further erodes HOME program funds by carving out \$200 million for the Administration's Downpayment Assistance Program.
- ! ***Housing for Special Populations: Housing for the Elderly and Disabled*** — The budget provides \$1.0 billion for supportive housing for the low-income elderly and disabled for 2002, a \$17 million cut compared with CBO's estimate of the amount necessary to maintain purchasing power for 2002.
- ! ***Special Supplemental Nutrition Program for Women, Infants and Children (WIC)*** — Despite its projection that unemployment rates will rise from 4.3 percent in 2001 to 4.6 percent in 2002, the Administration's budget freezes the number of low-income women, infants and children served by WIC at the 2001 level. The budget provides a total of \$4.3 billion in WIC funding to serve 7.245 million participants per month in 2002, the same number originally projected to be served in 2001. The last time the unemployment rate averaged 4.6 percent (fiscal year 1998), WIC participation averaged 7.37 million. Moreover, the budget levels include \$136 million of anticipated carryover from 2001. If 2001 participation rates exceed original projections, carryover funds may decline, further squeezing the WIC program budget for 2002. WIC participation in January, 2001 exceeded the original 2001 projection by 14,000 participants.
- ! ***Child Care*** — The budget raises total funding for the Child Care and Development Block Grant (CCDBG) for 2002 by \$200 million over the 2001 freeze level. However, the budget carves out \$400 million of the new total (\$2.2 billion) for a new after-school care voucher initiative, reducing funding for the current child care program by \$200 million compared to a 2001 freeze. The Budget Resolution recently passed by the Senate included an additional \$870 million for CCDBG for 2002.
- ! ***Temporary Assistance for Needy Families (TANF)*** — TANF is the nation's primary welfare program, providing cash assistance, case management, welfare-to-work and other

critical assistance to needy families with children in their efforts to find work or remain employed. TANF funds have become a particularly important source of child care funding for low-income families. In 1999, states devoted \$3 billion of their federal TANF funds to child care. The President's budget will reduce the amount of TANF funding available for child care and other assistance for low-income families in 2002 and beyond.

- ▶ ***Expiring TANF Supplemental Grants*** — The President's budget carefully enumerates spending associated with TANF activities authorized through 2002, but fails to mention that it allows TANF Supplemental Grants to expire after 2001. The Supplemental Grants provide additional funds to 17 states with low per-child grants under the standard TANF grant formula. Congress provided \$319 million for these grants in 2001. A bipartisan group of Senators successfully amended the 2002 Senate Budget Resolution to provide \$319 million for the extension of these grants through the 2002 reauthorization of welfare reform.
- ▶ ***TANF/Charity Tax Credit*** — The budget encourages states to use remaining TANF funds to cover revenue losses incurred from state income tax credits for charitable contributions, without providing funding to replace funds diverted from current activities. The diversion of these funds shifts the timing of their expenditure in the short term, but creates no net change in spending for 2002 or over the ten-year budget window.
- ▶ ***Expiring Contingency Funds*** — Congress created TANF Contingency Funds as a welfare safety net for states experiencing economic hardship. Welfare experts agree, however, that the currently authorized Contingency Funds are an ineffective buffer against economic downturns, and must be both improved and adequately funded. Despite increased evidence of state-level budget shortfalls, the budget contains no proposals or spending to fix and extend TANF Contingency Funds, which expire in 2001.

Cutting Programs for Americans' Health

- ***Freeze Ryan White AIDS Programs*** — For 2002, the budget freezes Ryan White AIDS programs at the 2001 level of \$1.8 billion. With the advent of effective therapies, the number of persons seeking AIDS Drug Assistance Program (ADAP) assistance has more than doubled since 1996. The budget's level funding of Ryan White programs, especially ADAP, comes at a time when many states are implementing program restrictions or eligibility limits because of budget shortfalls.

A recent survey (Kaiser Family Foundation, March 29, 2001) of ADAPs shows that these programs are key in providing HIV-related drugs to under-insured and uninsured persons

living with HIV/AIDS. Ryan White programs fill the gaps for many with HIV/AIDS who do not have insurance and cannot qualify for Medicaid.

- ***Cut Centers for Disease Control and Prevention (CDC)*** — For 2002, the budget funds CDC at a program level of \$4.1 billion, a cut of \$109 million (2.6 percent) below the 2001 freeze level. This includes transfers from other accounts and agencies. Areas marked for cuts include chronic disease prevention and health promotion activities (prevention of cardiovascular disease, diabetes, arthritis, and cancer) which are cut 23.3 percent below the 2001 freeze level.
- ***Cut Maternal and Child Health (MCH) Block Grant*** — For 2002, the budget funds the MCH block grant at \$709 million, a cut of \$5 million below the 2001 freeze level. The MCH block grant supports federal and state partnerships to develop service systems to address the critical challenges in maternal and child health.
- ***Freeze Healthy Start*** — The budget freezes Healthy Start at the 2001 level of \$90 million for 2002. The 2001 level was also freeze-level funding so the actual purchasing power of this program is reduced for a second year in a row by this budget. The Healthy Start program supports programs to reduce low birth weight, inadequate prenatal care, and other factors contributing to infant mortality, in targeted high-risk communities.
- ***Eliminate Community Access Program (CAP)*** — The budget eliminates the community access program for 2002, a cut of \$125 million for 2002. CAP funds grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.
- ***Freeze National Health Service Corps (NHSC)*** — For 2002, the budget essentially freezes the NHSC at the 2001 level. It funds NHSC at \$126 million, \$1 million over the 2001 freeze level. Through its scholarship and loan programs, the NHSC places physicians in medically under-served areas which often have a high proportion of uninsured persons. NHSC physicians are often the mainstay of the health care workforce for institutions, such as community health centers and disproportionate share and public hospitals, that serve the under-insured or uninsured.
- ***Cut Children's Hospital Graduate Medical Education (GME)*** — For 2002, the budget cuts pediatric GME by \$35 million (14.9 percent) below the 2001 freeze level. Funding drops from \$235 million for 2001 to \$200 million for 2002. These funds are currently used by children's teaching hospitals to offset the higher costs of providing advanced training to pediatricians.

- ***Cut Health Professions Training Programs*** — For 2002, the budget cuts health professions training by \$213 million (60.3 percent) below the 2001 freeze level.

Cutting Programs Protecting Americans' Environment

- ***Water Infrastructure*** — For 2002, the President's budget provides \$850 million for the Clean Water State Revolving Fund (SRF) Program, not even two-thirds of last year's enacted level. As a consolation, the budget does contain \$450 million for a new grant program that Congress created last year to address the lingering problem of sewer overflows. For the Drinking Water SRF Program, the budget provides \$823 million, the same funding as last year. Finally, the budget zeroes out \$335 million in water infrastructure aid outside of the aforementioned programs. Overall, the cut to water infrastructure aid totals \$382 million from the 2001 freeze level. This cut comes as the bipartisan coalitions in both the House and Senate prepare to push for increased federal assistance to address the country's unmet clean water and drinking water needs.
- ***EPA Science and Technology Programs*** — The Administration has said that it wants to make environmental decisions based on sound science, but at the same time it is cutting programs that provide the scientific basis for those decisions. Overall, the budget cuts EPA's science and technology account to \$641 million, a decrease of \$54 million (7.7 percent) from the 2001 freeze level. This cut includes a \$4.5 million cut to safe drinking water research and a \$6.3 million cut to research on key air pollutants.
- ***Cuts to Water Programs at U.S. Geological Survey (USGS)*** — The President's budget cuts the USGS budget to \$813 million, \$69 million (8.5 percent) below the 2001 freeze level. This overall cut includes \$20 million from the National Water-Quality Assessment Program (NAWQA) and \$10 million from the Toxic Substances Hydrology Program. NAWQA does essential water-quality monitoring and research to assess the state of the nation's waters and the pollution threats to those waters. The Toxic Substances Hydrology Program monitors for toxic substances in ground and surface water.
- ***Army Corps of Engineers*** — The budget cuts Army Corps of Engineers appropriated funding to \$3.9 billion, \$600 million (14 percent) below a freeze at the 2001 level and \$800 billion (16.9 percent) below CBO's estimate of the level needed to maintain current purchasing power. The budget includes no new construction efforts for 2002 and instead focuses on completing ongoing projects.
- ***Agriculture Conservation Programs*** — The President's budget eliminates the Agriculture Department's Wetlands Reserve Program, a cut of \$162 million. This voluntary program

purchases long-term conservation easements from farmers to protect wetlands, thereby improving water quality and protecting wildlife. The program has been so popular that roughly three-fourths of interested farmers and ranchers have been turned away due to lack of funding.

The President's budget also eliminates other popular and effective conservation programs for agricultural producers: the Wildlife Habitat Incentives Program, the Farmland Protection Program, Soil and Water Conservation Assistance, and the Forestry Incentives Program.

- ***Cleanup of Radioactive Waste at Former Weapons Production Sites*** — The President's budget cuts the efforts to clean up nuclear and other hazardous waste at the former nuclear weapons production sites of the Department of Energy by \$458 million (7.4 percent) compared with the level needed, according to CBO, to maintain purchasing power at the 2001 level. The budget is \$243 billion below the 2001 freeze level.

Cutting Programs to Ensure Americans' Safety

- ! ***Community Oriented Policing Services*** — Since 1994, the Community Oriented Policing Services (COPS) program has placed over 100,000 new police officers on the street while also providing administrative and technological resources for state and local law enforcement entities. The budget provides \$855 million for the COPS program, a \$172 million cut below the 2001 freeze level. The budget cuts COPS grants used for hiring new community police officers to \$320 million, \$271 million below a freeze level.
- ! ***Nuclear Nonproliferation Programs Cut*** — The DOE oversees several important programs to stop the spread of nuclear materials to terrorist groups and nations that are hostile to the U.S. Most of these programs are focused on Russia and other states of the former Soviet Union. The President's budget provides \$774 million for these programs for 2002, which is about \$120 million (13 percent) below the level needed, according to CBO, to maintain purchasing power at the 2001 level. This level is \$100 million (11.5 percent) less than the 2001 appropriated level. The following list includes most of the specific programs and the amounts they are cut compared to the 2001 appropriated level (in millions of dollars):

| <u>Program</u> | <u>Cut</u> |
|---|-------------------|
| <i>Chemical and Biological Weapon Response Research</i> | -12.0 |
| <i>Technologies to Detect Weapons of Mass Destruction</i> | -25.0 |
| <i>Nuclear Explosion Monitoring</i> | -14.3 |
| <i>International Reactor Safety (Russia and Ukraine)</i> | - 5.6 |
| <i>Safe Storage of Plutonium in Spent Nuclear Fuel Rods</i> | -24.0 |
| <i>Nuclear Cities Initiative</i> | -20.0 |
| <i>International Proliferation Program</i> | - 2.0 |
| <i>Fissile Material Protection, Control, and Accounting</i> | -30.9 |

The list exceeds \$100 million because the budget does increase a few selected nonproliferation programs, such as the highly-enriched uranium blend-down project, and the construction of the Nonproliferation and International Security Center at the Los Alamos Laboratory.